he Collapse of
Capitalism

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THE COLLAPSE OF CAPITALISM

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INTRODUCTION

SOME of our best informed American socialists evidently think it good policy to contend that the European socialists tried to prevent the war, but unfortunately were powerless to do so. No doubt this is mainly intended as an excuse for the German socialists who were considered the advance guard of the International until the outbreak of the war. Those who make this contention, so much at variance with the facts, believe that the socialist movement will go on after the war, much the same as before and for an indefinite time. Their purpose is to re-establish the International and in order to put the movement on the old track again, to prepare by bringing about a general reconciliation of the dissenting elements.

Lassalle has said that "it is futile to try to be cunning in great things," and we may add that this maxim is true no matter how well intentioned the cunning might be. There is never anything as beneficent on great occasions as the truth.

At least definitely a year before the outbreak of the war, but more probably for a number of years past, the International betrayed a lack of coherence. When that great catastrophe came, it revealed, as could plainly be foreseen, anything but that unity of action which was logically to be expected of a party priding itself on its ability to judge current events scientifically and to foretell future events by its understanding of present causes. If the science on which the party was based has not demanded important modification, something to which all sciences, especially that of economics, are subject; if a cleavage has not taken place within the working class, dividing it into social groups with antagonistic interests; and if the length of time which may seem necessary for an expected event to materialize does not influence men's present and practical, even if not theoretical, attitude in regard to such an event—then there is no explanation for the divergence of thought among those who style themselves socialists and for their failure to act as a unit. At that critical moment united action of the International would not have been pacifistic, but revolutionary, while at present the demand for "peace by negotiation," or dickering, is purely pacifistic.

In the United States the socialist movement was too weak to be put to the real test of action, instead of mere declarations. But even here differences of opinion arose. This is not to be understood as referring at all to the handful of former party members who joined the jingo multitude—fiction writers, rich of imagination, but sorely poor in knowledge; writers for popular magazines who never were, nor needed to be, particular about their facts; sentimentalists graduated from charitable settlements; professors and other collegians handicapped by their college training, etc., etc. All these elements were liable to flop at any time. No, we refer to differences of opinion between real Marxian socialists.

The immense majority of these have to the best of their ability opposed our entrance into the war, and since this step was simply irresistible, they have since been advocating an early peace. What evidently has determined their attitude is the old socialist ideal of universal peace, an ideal which, however, cannot be realized in an antagonistic form of society and of which the realization must be deferred until that form of society has ceased to exist.

There was, on the other hand, a small number of socialists in our midst who, with remarkable intuition, saw in this world war from the very start an act of suicide on the part of capitalism. After the die had been cast it was a mistake, so they felt, to try to prevent capitalism from accomplishing its own destruction. They could not, in conscience and as humane men, help the consummation along, but they could advise keeping our hands off. Had their advice received any attention, many a useless sacrifice to mob law would have been spared. True, these sacrifices are a mere trifle compared to the untold suffering caused by the war. This suffering went to the hearts of the few dissenters no less than it did to the hearts of the pacifists, but the former recognized that it was the inexorable price which humanity had to pay for its final moulting from animaldom.

The word "intuition" has been used in the preceding paragraph with due deliberation. Although the provisions of these few fine-sensed socialists are now rapidly coming true in a general way, yet it is a fact that they never stated their reasons clearly or convincingly. Certainly the decisive reason was never mentioned by them. That is a matter of post-Marxian economics which this little book undertakes to submit in brief form. Economic evolution plays, in our time, a more decisive part than in the past, and even more decisive than we could have thought possible only a few years ago. The influence of popular intelligence on social revolution is reduced to its lowest expression—Hobson's choice. The people, when the moment shall have come, will do that which they **must** do, that which they cannot help doing.

Basing ourselves on the economics of Marx, we shall find by analysis of the most profound change which has survened in the economic world since his time, that a new force has grown up which no longer leaves the downfall of capitalism to the vague future, or its earlier ending to the spread of a high degree of intelligence among the real proletariat, but makes the coming of that great event a matter of figures and entirely independent of even the collective will of men. The war has enormously hastened the development of this force, and the catastrophe is imminent.

Therefore, godspeed to the blind tools of history, who are hastening the destruction of the war-breeding class state!

THE COLLAPSE OF CAPITALISM

CHAPTER I

Socialist Differences of Opinion

HAS it escaped the reader that a complete change of mind has taken place among the leaders of American capitalism during the past year? Do you remember how not so long ago we were in high glee over the billions of profit we were gathering in furnishing to war the necessaries of his business? What an impetuous customer he was, caring only for early delivery, and not for price at all. He did not have to make a living selling the goods at a profit; his business was bankrupt from the start. How our foreign debt was wiped out either by purchase of the securities or by receiving them as collateral for our loans? How our bank reserves were swelled by shipments from Europe of gold, enabling the banks to inflate their loan accounts to the tune of seven times as much? We had ceased to be a debtor nation and had become a creditor nation instead. We were by far the richest country, and Europe's misfortune would surely afford us a still greater lead. Europe's South American investments of $6,000,000,000—shipwrecked by Europe's inability to further finance the enterprises—would fall into our lap at ten cents on the dollar. We started to invest in China, that country of fabulous possibilities of exploitation. New York was going to be the financial center of the world, instead of London. And we were going to have the necessary number of battleships to protect our empire, for "in international finance there are no receiverships, unfortunately," as Mortimer Schiff said, with tears in his eyes, in addressing a bankers' meeting, "we still need battleships."

Then the change of mind already alluded to took place. The mood changed. There was a transition from the exultant strains in the major key to discordant tones of alarm. The chorus voicing the hope that American capital was to exploit the world has now become mute. Instead, posters show us Columbia with a frown of anguish, and the epigraph, "You buy a liberty bond lest I perish." And our Secretary of the Treasury, son-in-law of our President, says that, unless we sacrifice money without stint, we stand to lose 125,000 millions of dollars. Why just that sum? Surely, it is not the result of calculation. It so happens that that sum represents half of the lately-mentioned estimates of our national wealth, and the possibility of the loss of the capital accumulation of a generation should suffice to send cold shivers down the backs of the possessors of our national wealth and to produce the necessary state of mind.

Of course, he might have given the full and true weight to his warning by saying that we stand to lose every dollar of our wealth. But that would have let the cat out of the bag by inducing the question how that were possible, unless the very existence of capitalism were at stake. It would have led to too much thinking, and you cannot make war that way.

Evidently the light of a new economics has broken in on the minds of the directing group of the capitalist class. Has, perhaps, Mr. Theodore Price, the editor of Commerce and Finance, privately made it clear to them what o'clock it is?

And so, in order to still prevent, if possible, the completion of capitalism's suicide, we had to endeavor to end the war. We forgot our former fear of sudden peace. We began to see the peril of continued war and it was becoming evident that there was no possibility of peace except through the victory of one side. So we thrust all our war profits into the war's furnace and duplicated the sum at once out of our original capital—ten billion dollars in all. In addition, we prepare to take a million men out of productive life.

Such is the emergency as seen at least by the inner circle of the capitalists who mould "public opinion." In the face of this the socialists hold differing views. I hope that nobody misunderstands me as referring at all to the handful of novel writers, poets and other literati who recently said goodby to us. They are long on imagination, but particularly short on knowledge. Judge of their fund of the latter, if perhaps the solidest among them, formerly a director of a school of social science, in answering a question of a reader in a recent issue of the Appeal to Reason, says that no doubt there would be money, banks and interest under socialism.

The International broke down from a lack of unity between the national socialist parties in their world outlook. Especially the main contingent, the Germans, separated themselves more and more on the question of war from the British and French, led by Hardie and Jaurès. The attitude of the Germans, and their ultimate defection, is not to be explained by national character or national training, but by economic development. But this can more adequately be discussed in the next chapter after having taken a closer look at the present state of economic thought among the workers. The defection of the Germans, interpreted as baseness and treason by most French and British socialists, so outraged the latter that they became supporters of their governments for war a outrance. However, there exists now in every country a considerable socialist element which holds with the American socialist party that the interests of the international proletariat demand immediate peace. International socialist action at the present time in favor of peace cannot be viewed in the same light as similar action might have been before the war. At that time action in favor of peace was revolutionary action against capitalism. Today such action would try to rescue capitalism.

In the face of one of the most stupendous facts of all history the socialists are at sea, left without guidance by the scientific socialism known to them.

CHAPTER II.

Stagnant Economics.

NOBODY can put a higher estimate on Marx's work than the writer of this book. I have said elsewhere that the human race has, perhaps, not produced a man of equal power of analysis and consecutive thinking in the thousands of years since Aristotle.

A professor of economics at a New England university, writing in the Intercollegiate Socialist, describes my devotion to Marx as "almost touching." It must seem all the more touching since, according to the professor, every word that Marx wrote on economics was false. Being a very ignorant man on the particular subject of economics, he does not realize that he says just that and no less. But it throws a peculiar light on the understanding of Socialism in some quarters that neither the editor of the Intercollegiate Socialist, nor any of its readers, questioned the professorial authority.

Yet all sciences are subject to change, and none changes as continually and rapidly as economics. At one time an accepted definition of mammals became insufficient in consequence of the discovery on a new continent of egg-laying mammals. Old geographies describe as seaports cities now miles from the coast. What is permanent in Marx is his introduction of the methods of science into economics and his analysis of the economic phenomena existing in his time. As no error has ever been proven against these analyses, they must form the groundwork for the study of any subsequently arising economic phenomena. But as far as Marx's forecast of the future, based on the economic conditions in his time, is concerned, it is subject to modification by later economic developments. And, indeed, developments of overshadowing importance have taken place since Marx, which will be briefly outlined in the next chapter. If economic development has made a great stride forward and Marxists remain under the impression that nothing essential has changed, then their science becomes detached from the living present and incapable of understanding it. Marxism thus becomes atrophied and reduced to mere scholasticism.

The final conclusion derived from Marx's analysis of the life processes of capitalist society is that their inner contradictions prove this form of society to be only transitional, not a final form. The operation of these processes has the double effect of increasing the difficulties of the present form of society and preparing the technical conditions for a higher, a perfectly social form. The sequence of thoughts may be summarized briefly as follows:

Free competition, a life principle of capitalism, forces the individual capitalist concern to strive ever for a lower cost of production. This purpose is attained mainly by improving the means of production and enlarging them to any scale called for by new scientific discoveries and the development of technique. The mass of products is thus constantly increased. But capitalist production is carried on primarily for profit. The profit can only be realized by the sale of the products. But inasmuch as the workers, the great and ever-growing mass of the population, receive in the form of wages only part of the product value,* the contradiction between the irresistibly growing mass of commodities and the conditions for realizing the profit by their sale becomes ever greater. On the one hand, the system tends to frustrate its own primary purpose; on the other, it inflicts unemployment and privation on the workers, who are thus forced to end the system.

As a prognostication based on the working of the economic factors in Marx's time, the foregoing is as logical today as when it was first given to the world by him. And that it would prove true ultimately on its premises alone cannot be questioned, in spite of certain obstacles which have since appeared and which relate to the important question of time—the time necessary for capitalism to reach its phase of decay and untenability. Time is apt to affect any problem of human affairs very materially. A later economic phenomenon might arise, and, as I will

*I have considered it of importance to prove in "Capital Today," from official figures, that this part is not large, but exceedingly small—no more than 20 to 25 per cent.

show, actually has arisen, promising the social transformation in a much shorter time and rendering the earlier prognostication obsolete.

The obstacles above referred to are, or rather were before this revolutionizing war:

(1) Modern imperialism, signifying the almost unlimited expansion of capitalism.

(2) As a result of this determining development, a changed ideology of certain elements among the workers and of the intellectual proletariat.

Modern imperialism aims at the political control of all backward countries by the great capitalist governments for the purpose of securing to their respective capitalists the safety of the industrial enterprises which these may establish in those countries. The control is to insure to the home industries the necessary supply of raw material, a monopolistic market for the home exploitation of the controlled territories. This exportation of surplus capital—not of loan capital, as is often understood, but of industrial capital, principally in the form of commodities—appeared to be capable of almost boundless extension, and promised a long lease of life to capitalism. China alone is ready tomorrow to absorb a capitalization of a hundred billions of dollars. In face of such possibilities Marx's forecast loses much of its force.

About the time when Marx's "Capital" appeared, the United States, having just overcome the agrarian South, emerged from colonial conditions and started on its wonderful career as an industrial nation. Our capitalists have now become the richest in the world, and their annual profit accumulations have attained a volume which makes investment on a profit basis—not on a mere interest basis—difficult at home. The railroad system is completed and is paying for improved equipment, as are the trusts, largely out of profits. More recently the nascent automobile industry called for new capital. Since then there has come no important call for capital on a profit basis, such as our capitalists have been accustomed to. They must look abroad and have their eyes on Latin America and China.

The great rise of capital in Germany dates from about the same time and has been equally prodigious. It received its impetus partly from the French war indemnity, but especially from the protective tariff established in 1878. Being a small country, with few natural resources, Germany has been aiming to control backward countries to insure the necessary supply of raw materials for her trusts and monopolistic markets for their products. Everywhere she encountered England, either in prior possession or otherwise in opposition.

The industrial advance of Germany was accompanied by a marked improvement in the condition of her working class, to some extent fostered from above by "social legislation." Emigration almost ceased and was balanced by immigration of Poles and Italians. The type of the German worker before the great industrial rise was a man wearing a blue blouse and a cap, with a clay pipe in his mouth. Ten years ago the writer saw the railway platform of a large city densely crowded with gentlemen wearing natty woolen suits, derby hats, carrying leather handbags and smoking cigars. On inquiry he learned that they were workingmen going to their homes in the suburbs.

The Socialist movement in Germany antedates big capitalism and trade unionism. The earlier Socialists were enthusiastic, aggressive and somewhat prone to violence. But their mood changed gradually. For years past many voices were heard in their party condemning its inaggressiveness and growing conservatism. In international congresses the Germans were the stumbling block to common action against militarism and war. But the most remarkable historical fact is that a year before the outbreak of the war, almost at the same moment when the French Socialists under Jaures' leadership came out of a victorious electoral campaign which resulted in the installation of a new ministry favoring reduction of military service from three to two years, the German party for the first time in its history of over forty years voted the military budget.

Who can doubt today, seeing through the present relations between the so-called majority Socialists and the imperial government, that the former's claim that they were unprepared on that 4th of August, taken by surprise by the events, fooled by the government into the belief that the principal fight would be waged against the Czar, are mere shallow excuses, that they knew a year before what was coming and that then was the time when they had to decide whether they would stand by the international proletariat or by the German capitalists.

What brought about this gradual mental change and finally the deliberate disregard of Marx's admonition, "Workingmen of all countries, unite," by the former advance guard of the international Socialist movement is something we very much need to understand.

The rapid capitalistic expansion had favored the spread of trade unionism and created a large salaried intellectual proletariat in the industrial professions. In becoming unionists, the workers did not cease to be Socialists. But the spirit of trade unionism gained the ascendency. Capitalism was soaring. The fulfillment of Marx's prediction of the loss of control of the means of production by the capitalist class seemed removed into the hazy future. It seemed better to give precedence to the workers' immediate material interests. Of course, one might continue to vote the Socialist ticket—no harm in that, and it might be useful, as, for instance, in protecting the right of organization. But if it came to deciding a real issue, such as whether a general strike should be resorted to in order to gain the franchise in Prussia, the trade union spirit prevailed over the Socialist spirit.

What, really, is this trade union spirit? Perhaps illustration may be better than dissertation, especially if taken from well known facts nearer home.

Before the great Paterson silk strike of 1913 the loomfixers, warpers and twisters were organized. Constituting a small group (about five per cent of the total number of silk workers), but able to paralyze the industry, they had managed to raise their wages fifty per cent above those of good weavers, while in Pennsylvania, in the absence of organization, the wages were the same, or but little higher, than those of good weavers. When the uprising broke out these privileged workers were forced into idleness. Intolerable!

The privilege to paralyze the industry was theirs, and now this mass of mudsills were turning the tables on them. If the ninety-five per cent were successful, it meant a new order of things. Where there had been easy acquiescence on the part of the bosses to the demands of the few, there would be strenuous resistance hereafter to the demands of all. Raising the price of a particular product, comparatively to that of other products, tends, save under exceptionally favorable conditions, to lessen its consumption, thus sharpening competition and reducing the profit rate. The well-being of the union members is conditioned on the helplessness of the masses. If the unions erected no barriers against the unlimited growth of their own membership, or if they strove for the general organization of the whole working class, they would lose their present privileged position absolutely. And so the American Federation of Labor sent officers of an affiliated textile union to Paterson to break up the strike.

Lest it might be thought that this case may be exceptional and not characteristic of the general attitude of the unions toward the masses, let me recall an incident which lays bare the whole antagonism. At the hearing on the New York state health insurance bill, the general organizer of the American Federation of Labor, speaking in opposition to the bill, said: "Trade unions already have successful insurance systems" and "labor does not want class legislation even for itself." When these men use the word labor, they always do so with a mental reservation. They do not mean the abstraction which is expressed by this word, but the concrete members of the craft unions. These oppose class legislation for themselves, if it at the same time helps the masses, and the more so if it helps the masses to the disadvantage of the unions. The trade unions are able to help themselves.

These facts were expressed essentially by a representative of a very large union, comprising, however, all workers employed in the industry. She spoke at the hearing in favor of the bill, "not because it is necessary for organized labor, but because it is imperative for unorganized labor. Where there are two and a half million organized workers in the United States, there are about thirty million unorganized workers."

For forty years the Socialists in this country have tried to make propaganda among the unions and avoided everything that might displease them. All in vain. Contrary to the order of events in Germany, in America the unions were on the spot before the Socialists. It is the custom of the latter to reproach the unions with being unenlightened and to express the eternal hope that they may recognize the necessity of modernizing their organization. All in vain. They do not want to be converted. You cannot give points to Samuel Gompers on Marxian economics. He was, in his younger days, a capable student of them, as the writer knows personally, but he decided to use his knowledge in the interest of a relatively small class.

The foregoing is not meant as a recrimination against unions or against Gompers. It is all "economic determinism." Social revolutions are not brought about by the force of intellect, but by economic pressure. Marxian economics permit this pressure to be relegated to an uncertain future. The consequence was the rise of an intermediate class able to save itself from submersion by pressing down on the masses.

In Germany this new class included another important element, namely, that of the mental workers. With its model system of technical schools that country produced chemists, mechanicians, etc., so to say, by machine, when in other countries they were still being made by hand. Naturally their exchange value fell and for many years past we heard much about Germany's intellectual proletariat; also complaints about their prominence and undue influence in the party. They smarted under the handicaps of a cramped Germany and their ideology became imperialistic. These able men, instead of earning small salaries at home, saw themselves earning large salaries as technical directors in German dependencies, if only Germany would possess that "place in the sun" to which her capacity entitled her and which England refused her.

Their ideology harmonized with that of the trade unionists, who soliloquized in the following strain: "We have done very well since our country has become industrialized. Why should we not fare still better if our country gained a 'place in the sun'? We are living now, and Socialism is still far off. Really the interests of (German) capital and (German) labor are identical. The identity of interest of the whole world proletariat is for the present a chimera. We are an all embracing German trade union. Each one of us was a German before he was a Socialist."

These elements, the trade unions and the salaried intellectuals, as the economically better situated, better educated and more alert, secured control of the party machinery and of its representation in the Reichstag. We know the result.

What happened on the 4th of August was nothing cowardly or treacherous. It was simply the outcome of economic development, which does not stand still, even if economic science sometimes does. The admonition, "Workers of all countries, unite," and the axiom, "The emancipation of the working class must be accomplished by the workers themselves," have paled. But our hearts need not grow heavy on that account. In our time —more so than ever before—man is driven by the superior power of economic law, and old formulae may not hold. Fortunately and wonderfully, capitalism was born with the germ of a mortal disease which has been revealed only in the course of the last fifty years, and the coming of its fatal crisis can be almost measured. The progress of the disease has been abnormally furthered by the war. Capitalism is now moribund and its end is due within a very few years.

CHAPTER III.

The Fatal Flaw of Capitalism.

IT CANNOT be stated too often that all analyses of recent economic development must start with the basis established by the discoveries of Marx.

Capitalism is quasi-social. Each unit of society produces things which others want, and itself consumes what the others produce. There exists, however, no regulation of production and, while there is a general division of labor, the units act on their own responsibility.

The division of the products is, consequently, only possible by their being universally exchanged for each other on the general basis of value or socially necessary labor time. Thus products are not merely useful things, but, owing to their value relation, commodities. To effect these numerous exchanges directly is an absolute impossibility.

It was necessary for the commodity producing society, of which capitalism is the modern development, to hit on some single commodity for which the demand was always at least equal to the supply, and which might thus be acceptable everywhere in exchange for any other product. Many things have served as such widely accepted equivalents, but finally gold proved itself to be naturally the universal equivalent. Social recognition made this particular commodity the world's money, in which all values are expressed and which can buy anything anywhere. Thus there are two categories in the process of the above mentioned process of exchange—the commodity and money. The producer sells for gold and with it buys what he needs. He effects an exchange of two commodities by means of money.

It is already seen that money (which is now synonymous with gold) has here performed two functions:

First, before the actual exchange it has served as a measure of value or an indication of the price of each commodity; therefore, indirectly of the relative value of the two commodities or the quantitative proportion in which they were exchangeable.

Secondly, as the substantial and socially recognized equivalent of each commodity in the act of sale or purchase.

Marx notes that gold, in performing these two money functions, appears in two different aspects:

Only **abstract** or ideal gold—gold in general—is needed for the money function of measure of value.

But **concrete**, particular and definite quantities of gold are needed for the function of means of circulation (including the function of means of deferred payment, or credit).

Marx, of course, does not say that the distinction between abstract and concrete gold involves any incongruity apt to subject the system to ill effects and possibly prove fatal to it. Indeed, there can be no contradiction between sense-perceived objects and their generalization or abstraction. When we say "animal" we include in this abstraction a great variety of creatures; but although a whale and an amoeba differ greatly from each other, neither can present a contradiction with the abstraction "animal."

Nevertheless, since Marx's time economic evolution has actually produced a contradiction between concrete and abstract gold, speaking not, of course, of gold as a natural product, but as a social institution, as the money material. But even so, how is this possible? Are not scientific principles universal, applying to the science of economics no less than to the other sciences?

There are cases in nature where a change of quantity transforms itself into quality. Water, losing a certain quantity of heat, becomes ice. Similarly gold, as the money material, is undergoing a quantitative change considered in relation to the social need. But gold, as money, performs a dual function. When the quantitative change in one direction or the other, either by increase or decrease, transforms itself into a qualitative one, then the correspondence of the abstract with the concrete during the former state of balance is disturbed. A flood of gold deprives it of the quality of being a measure of value, while it favors the other function. Deficiency, on the other hand, deprives gold of the quality of being a means of circulation, whilst its function of measure of value remains unaffected. Concrete gold and abstract gold as the money material, have reached a state of contradiction.

The mere statement by Marx, sufficient in his time, of the distinctive uses of abstract and concrete gold is now seen to contain the germ of a contradiction which can be formulated as follows:

Abstract gold can fulfill the money function of measure of values so long as the concrete quantities from which the abstraction is derived are **insufficient** for the social need;

Concrete gold can fulfill the money function of means of circulation (including deferred payments) so long as the quantity is **sufficient** for the social need.

What actually has been progressing since Marx with ever-growing momentum is the transformation of gold, as money, into gold, as metal. This carries with it the loss of its quality of means of circulation, as water turning to ice loses the quality of drinkableness, and means the rapidly approaching end of the era of money.

The contradiction between the requirement of scarcity for one function of money and abundance for the others now can be clearly recognized as the most fatal defect of capitalism.

The war has developed this contradiction with abnormal rapidity to a point where it is an immediate menace to that form of society. Its downfall, root and branch, will be positively assured by a continuation of the war for, say, another year. That downfall will then be like an act of nature, and not dependent on the mental and moral preparation of the peoples of the world for a new form of society which must, perforce, be completely social.

On the existence of money depends the existence of capitalism. The conditions presented by gold are absolutely vital to its life. One valuable product, representing social labor time, is necessary as an equivalent which confirms to the uncontrolled private producers the social validity of their individual labor time. When it becomes impossible any longer to conform to this necessity, then the category of money breaks down and not a vestige of capitalism can survive a day.

Most of us do not see a gold piece or bar from year's end to year's end. We are paid our wages or for goods, in paper money or checks, and the subject of gold seems too remote to hold any possible interest for us. Even those of an inquiring mind may be excused if at first sight they approach the subject with a feeling of bored resignation. The general impression is that this subject is of interest only to financiers. And yet there is no subject which touches as closely the economic future of the reader, of the working class and of the whole human race, as this very subject of gold.

The yellow metal always has been much coveted. With the increase of trading it was found to be a most available commodity to trade with, as it was always acceptable in exchanges. It came to be preserved for this very purpose, instead of being consumed. As soon as the supply was sufficient gold became the universal equivalent, and with the coining of pieces of arbitrary weight and fineness by the state, as a guaranty of their value, it became the socially recognized money. At present the world's stock of gold represents nine billions of dollars. This leaves far behind the value of any other single commodity. If any other raw material showed a similar position of supply relative to consumption the bottom would be knocked out of its price. But the mine owners do not have to pay the least attention to the state of consumption. Their product is not intended to serve any rational use, although a large part of it does find such use. They can go on serenely producing gold at a profit for a purpose the existence of which cannot be considered as a subject for compliments to the present state of human intelligence. We think that without this vast stock of otherwise futile raw material we would be at an utter loss how to distribute our products among ourselves. Indeed, this stock is woefully insufficient to accomplish that function.

In 1914 official data assigned to gold a narrowness of 4½ per cent of the total money system of the United States, the most favored country. In spite of the huge transfers of gold from other countries during the war, this percentage has shrunk still further. Before the war this narrowness was even more extreme in other countries, especially in England. As gold is the sole value basis of the entire monetary system, bank deposits and notes being in the last analysis redeemable in gold, it is not to be wondered at that for a long time before the war the outflow of even moderate quantities of gold from a country caused anxiety to its financiers. But since the war, owing to the enormous multiplication of substitutes for money (bank notes and bank deposits) in the belligerent countries, the gold situation has reached a most critical stage, and the gold basis has practically been abandoned in all of them. Yet gold is naturally the money commodity—nothing else that exists on this planet, or that ingenuity could contrive, can replace it to advantage. Gold will not even tolerate any other gods beside it. All efforts, for instance, to maintain a definite value relation with it of silver have failed.

With the increase of production by capitalism the inadequacy of the gold supply began to make itself felt. Certain experiences led to the discovery that tokens of money of less than the indicated value, or even of no value, could be used for circulation. It is positively not true that Mephistopheles was the inventor of paper money, as Goethe informs us in the second part of "Faust." Anyhow, the state issues slips of paper on which various denominations of value are printed and by its authority declares them legal tenders for all money obligations. Thus they are an addition to the gold.

How can the state endow worthless slips of paper with the function of money?

Indeed, the state is powerless to do this. It cannot endow these slips with all the functions of money. In the first place, it lies in the very conception of money, as defined by Marx, that it must be world money. Tokens are only current within the confines of the state. Internationally, only gold is accepted. Furthermore, paper slips, being of no intrinsic value themselves, cannot be the measure of value of other things. They also cannot function as means of deferred payment (credit), because, as such, a money material subject to the least possible change of value is required. That is the reason why long-term bonds are made payable in gold, it being permitted to eliminate tokens by private contract. And tokens are subject both to overvaluation and depreciation. In fact, both have occurred.

The only function of which tokens are capable is that of means of circulation within the state, and even that only up to a certain limit fixed by economic law, which is mightier than the state.

Now, the question might be narrowed to this: How can the state endow the paper slips with even that much power?

The answer is: The essential thing for the alimentation of the social body is the circulation of the privately owned commodities. In the acts of exchange money takes only a fleeting part. After having mediated here, it moves away to repeat its offices elsewhere. In this ephemeral role gold may be replaced by a symbol. But, while outside of circulation, gold always retains its full value as a commodity, its symbols become mere worthless stuff.

The power of the state to issue papers as symbols of gold is limited by the extent to which gold itself would have to circulate. If issued in excess of the economic law, the tokens depreciate relatively to gold. Nationally they become the measure of value, but only in an indirect way. First, the total value of the commodities to be circulated within a given time by the tokens determines the value of the total issue of the latter; then the value of the token units is revealed as an aliquot part of their sum. They lose their character of tokens of gold and become tokens of value in general, indefinite and varying with the fluctuations of the total value of the commodities.

There is only one way of positively knowing whether and to what extent tokens have depreciated, namely, by their value-relation to gold. This is usually first revealed by the rates for foreign exchange. In normal time this item in the newspapers is most uninteresting to the general reader. But we are passing through an abnormal economic period, and there is nothing so significant as the progressive decline of foreign currencies, as quoted in American money, except where prevented by artificial, and doubtless temporary, means. The latter is now the case with the pound sterling. This depreciation of foreign exchanges measures, and will continue to measure if the war cannot be ended before long, the distance already traveled, and still to be traveled, to the complete destruction of money, which means the death of capitalism.

Thus Russian and Austrian paper money can be seen to have lost 80 per cent; German and Italian, 50 per cent of its normal value. English and French exchange has been sustained, while that was possible, by giving up to the United States all their available foreign investments and a huge mass of gold. When it became impossible to keep this up any longer, America was confronted with the alternative of allowing the pound sterling, the world's credit denomination, (and with it the franc), to fall suddenly to the level of other European currencies, or of furnishing our goods without pay.

Our capitalists began to perceive that it had been a mistake to gloat over the prospect of supplanting the impaired pound by the intact value of the dollar as the world's credit denomination. The war had carried things too far. On the contrary, they began to realize the imperative necessity of sustaining the impaired pound. It was a supreme occasion for capitalist solidarity. The effort had to be made, not counting billions, to stand united, and should it not succeed all might as well go down united, as disunited they surely must. Therefore, our government now pays for the goods with money borrowed from our patriotic citizens.

There have been many instances of great depreciation of paper money and several of the utter extinction of its value. All these instances have been national and occurred prior to the building up of the present much more complicated financial mechanism. For these reasons they remained without permanent ill effects. It will be altogether different when the inherent tendency of the monetary system (which I will take up in due course) leads to inevitable and progressive depreciation simultaneously in all countries.

This monetary system includes not only the current money of the realm, gold and its symbols, but a kind of bookkeeping money which is transferred from one to the other by means of written orders, called checks, issued on institutions called banks. These are the social custodians of and bookkeepers for this new kind of money. It is a development of the second half of the last century. In Marx's time it was in considerable use in England among the large capitalists. He espied the dangers of the "clearing" system, saw that it was apt to lead to panics; but it was impossible for him to foresee that bookkeeping money, then in its infancy, was to be the indispensable tool for engineering the tremendous rise of capitalism just beginning, and that this infant would grow up to be the monster that must eventually destroy its maker.

What has so far been said about gold and paper money can only find its real application when brought into relation with bookkeeping or bank money. Only an understanding of the complete subject enables us to realize the present precariousness of capitalism and to determine our attitude toward the war. There has taken place since Marx an important economic development which has placed the bank (money) instead of the industrial capitalist (commodity) in the center of the world stage.

Socialists unaware of this development cannot act with the necessary judgment in the present world crisis.

CHAPTER IV.

Money of Account.

IN THE year 1863, about the time when the first volume of Marx's principal work apeared and long after his "Critique of Political Economy," which treated mainly of the problem of money, the deposits of all the banks in the United States were $394,000,000. Today there are single banks in New York whose deposits are larger, and the total deposits in the country are fast approaching the thirty thousand million mark.

This is a new kind of money which has added itself, not only in this country, but in all capitalistic countries, to the metallic and token money previously used almost exclusively. Great Britain alone had already developed the new kind of money to a certain extent as already mentioned. Without this additional money, the great industrial advance of the last half century would have been impossible, as the metallic money, together with the superimposed tokens, would have been utterly insufficient to meet the rapidly increasing requirements of circulation and of deferred payment.

What is the true inwardness of this new money? How did it originate and how does it grow? What are its economic effects?

It is a trite statement that about the middle of the last century the building of railroads and the launching of many new industries made it necessary to collect all the scattered funds which, thus concentrated by the banks, were put at the disposal of the industrial capitalists. But that sum, as we see by the example of the United States, was not very large and has, in fact, been cancelled long ago.

The real origin of the immense total of the world's bank money, or Money of Account, is twofold, producing two categories of such money. I designate them respectively:

Money of account originated in profit, and

Money of account originated in bank credit.

In practice these two categories of money of account continually flow into each other, become indistinguishable from certain angles and would be inextricably mixed, if it were not theoretically possible to eliminate and cancel the last-named category, leaving only the first named to continue in existence. Such a contingency, however, is entirely out of the question, either now or during whatever span of life capitalism may still have.

In the analysis of the whole subject it is, however, necessary to keep each category of money of account distinctly separate as far as possible, merely observing finally their manner of intermingling and the ever-recurring cancellation of the bank-created money by the other kind.

We shall now proceed to discuss the profit-originated money of account, and the reader will remember that in doing so we separate it for the present from the existence of the bank-made kind.

This money of account, then, consists of various elements of which the ownership is vested in the several kinds of banks and in their depositors. The totality represents loan capital lent or to be lent to others by the banks. These elements are:

1. The banks' capitalization (which is

very far from being identical with capital paid in, one bank in New York, for instance, having distributed a stock dividend of 1900 per cent at one swoop) and their surplus accumulated from profit;

2. A certain part of the deposits, less the extent to which they may be covered by cash in the possession of the banks. All of this cash came from the depositors and is subject to their call.

It is already apparent that the banks are the social monetary agents who are debtors and creditors for equal amounts. They are debtors to their stockholders and depositors, and creditors of the borrowers. But it is their relation to their depositors which, as we shall see, is by far the most important and, indeed, constitutes the most immediate menace to the life of capitalism.

How did this relation arise and how is it that it grows in importance all the time, as evidenced by the growing deposits?

These daily deposits consist now, as they have for a number of years of about 94 per cent checks and 6 per cent current money. Elaborate investigation by the government has shown that the daily cash deposits practically represent the circulation of the country's payroll, the capitalists and farmers paying for their personal expenses mainly by checks. In England check payments preponderate to a similar degree and their proportion to cash payments has increased fast in Germany during the last ten years.

It is clear that if the daily deposits consisted exclusively of checks it would be a case of mere transfers from one deposit account to another of already existing money of account. The sum of the latter could never increase in the least by such mere transfers. It must be, therefore, that the secret of the growth lodges in that 6 per cent of current money.

This suposition is strengthened by the certainty that at the beginning of modern banking there was nothing but cash—no money of account whatever and yet this latter germinated and grew. And while we are on the track of the problem, another fact strikes us: This immense amount of bank money once did not exist and now does as an addition to the cash.

Clearly it is a gain. But whose gain? The workers own only a small portion even of the deposits in the savings banks; the middle class (mostly farmers) has a larger share in the gain, but the great bulk belongs to the capitalists. That it would be uselessly complicating the subject under discussion to consider the money of account as anything else but profit is shown by the mere fact that the one federal reserve district of New York out of the 12 districts, has one-third of the total resources. And, besides, New York is the seat of the great trust companies.

Now, let us watch the operation of the formative process of the new money. A retailer deposits the cash receipts of the day in his bank. Let us suppose that he at once remits to his wholesale purveyor an order on his bank (check) for precisely the goods sold. The check will leave a balance on his account, representing his profit. The wholesaler, following suit, remits a check to the manufacturer of a lesser amount than that received, as he also retains his share of the profit. The manufacturer in his turn issues his check for the raw material consumed and draws out of the bank the cash for the wages necessary for reproduction, whereupon the wages start their next rotation with the bank again as a point of passage.

So much of the cash as the manufacturer draws less than the retailer had deposited remains for a time, the length of which is capable of statistical demonstration, in possession of the bank, subject to call by any depositor, but in the meantime constituting the bank's "reserve." At the end of its period of quiescence in the bank the balance of the retailer's cash is finally drawn by capitalists, farmers, etc., for personal expenses.

The daily repetition of this process and the resultant accumulation of the profit sediments have in the course of time made it possible to dispense entirely with money for the settlement of obligations between capitalists which are now effected exclusively by money of account, through the medium of the check.

Just what this kind of money is may not yet be quite clear. Suppose, therefore, that you deposit a hundred dollars cash in a bank today. Tomorrow this cash is paid out again by the bank to any applying depositor and continues its existence in the freedom of circulation. At the same time this cash has left behind its shadow on your deposit account. You also are still the owner of a hundred dollars (in the form of a bank deposit). Apparently the amount of existing money has doubled. The same identical hundred dollars may thus give rise to innumerable shadows on the bank's books. This wonderful exhibition of the independence of shadows from substance is made possible only by the social faith that all these shadows can be resubstantiated.

There are, of course, taking place constant reductions of the size of the shadows; otherwise the growth of the money of account would proceed at a furious rate. These counteracting factors are perfectly capable of analysis, but this would require more space than these chapters permit. Here, therefore, we must content ourselves with the foregoing suggestion of the positive side of the process of growth.

Notwithstanding the counteracting factors and the relatively small part which cash plays in the daily deposits, the volume of money of account is increasing

20 times as fast as the volume of the basic gold, a most momentous fact.

It seems hardly necessary to state now explicitly that the accumulation of shadows which we know under the name of bank deposits are really not money at all, but only titles to money which the banks, as social monetary agents, have undertaken to redeem. They are the banks' debt, popularly known as deposits and transferred from one to the other as money. These titles, once created, are indestructible, except by the theoretically normal, but practically impossible, process of their redemption in money, or by the theoretically abnormal, but only possible, process of the failure of the banks. Therefore, the volume of the titles ever increases until the system breaks down under the weight of its own absurdity. The root of it lies in one of those contradictions of which capitalism is so full. The banks are not paid, as their historical predecessors were, for the service of handling and safekeeping their clients' money. Their income is derived from interest on their clients' money which the banks lend out for their own account, without cancellation of the title to the money by the depositors and without their legal consent. The banks are supposed to lend out the money, and at the same time not to lend it out, but have it always at the call of the depositors.

And, now, how good are these titles to money? The disparity in the rate of increase between the titles to money and the actual money (gold and tokens) has already been pointed out above. As to the final outcome the reader cannot be in any doubt. But the purpose of this little book is to show how far the destructive process has already gone in the normal way in the United States and how far it has been advanced abnormally in Europe at the present stage of the war.

As I show in my book, "Capital Today," the banks of the United States held in 1913 about 9 cents for every dollar they owed their depositors. Since then conditions have not improved, in spite of the gold imports which have piled up in this country three-eighths of the world's gold. This "reserve" is unequally distributed, running from fairly high reserves carried for the central reserve cities down to ½ per cent in the case of mutual savings banks. A widespread demand for money, especially if it exceeded the aforementioned 9 per cent of the deposits, would be impossible to satisfy, except with paper money, which would progressively depreciate so long as its quantity increased.

It is unnecessary to recall here that the creation of tokens is limited by the sorely deficient supply of gold. But how has society been able to get along with such a slow increase in the volume of current money in the face of the enormous upbuilding of money of account? True, the getting along was not always smooth. Rumblings foreboding the greater storm a-coming have occurred, as for instance, the panic of 1907, when checks went to a discount of 5 per cent against paper money and remained at a discount for a month. Normally, however, currency is needed only for the country's pay roll, as already stated, and the growth of the pay roll is out of all proportion to the profit accumulation in money form, although this has served over and over throughout the years for the personal support of the capitalists.

Now, this accumulation of profits in money form comes into conflict with the system of wages for which a relatively small fund only is required. On the day when the capitalists shall desperately seek to realize their profits in actual money, instead of titles to money which is only a nominal realization, then the contradictions of capitalism must end in a social catastrophe. The Marxian conclusion regarding the final outcome of these contradictions, already summarized in the second chapter, namely, the incompatibility of the growing means of production as an engine for profit, with the payment of mere wages to the workers, finds a new and directly dangerous version in the incompatibility of the growing volume of titles to money with the necessary existence of only enough actual money for the payment and circulation of mere wages.

We now come to the second category of money of account, that created by the banks.

Every loan taken up by a depositor

immediately becomes a deposit by being credited to his account. The bank, however, must have a "reserve" against such deposits, the proportion being fixed by law in the United States, but in England left to the discretion of the deposit banks. Now, when an intending borrower applies for a loan, must the official see whether he has any unemployed deposits on hand? By no means. All he needs to know is whether he has cash on hand in excess of the reserves required on his existing deposits. Thus, if he finds that he has an excess of, say, $10,000, he may lend $100,000. The lending of "money" which is so utterly a fiction of the mind is made possible by the system of "clearing" which was already distrusted by Marx. The bank official knows that all other banks are doing the same thing; that all checks drawn against such loans are likely to balance approximately at the clearing house without strain on any one bank. Thus bank A makes a loan to Y, bank B to Z, each of $100,000. Y's check finds deposit in B, Z's for the identical amount in A. At the clearing house the checks held by A and B against each other are "swapped." The two banks have lent out a total of $200,000 without having paid a cent. That banks ordinarily cannot fail to be tempted to earn interest on money so purely imaginary is self-evident.

The payees of the two checks do not know, and need not care, whether the remitter borrowed the money or owned it. For them they represent simply the money form of the value of commodities they sold. When they deposit the checks the amount becomes an addition to the profit-originated money of account, not because the value of the commodities was all profit, but because the value consists partly of new profit and partly of old profit become capital. Profit-originated money of account is the money form of part of the accumulation of old profits to which new profits in money form are constantly being added.

As a matter of fact, however, the checks given by the borrowers represent no value, no previously performed labor. The money is purely fictitious, created by the banks out of nothing. As it has nevertheless become profit-originated money of account when it came into possession of the sellers of the commodities, having been metamorphosed into such by transfer from the bank-made credit money, there exists now evidently an inflation of the profit-originated category which cannot be otherwise than temporary and must needs be removed. The deflation is effected at maturity of the loans by their amounts being charged to the deposit accounts of the borrowers. The inflation of profit-originated money of account on one set of deposit accounts, that of the sellers, is made up by cancelling accumulated profits on another set of deposit accounts, that of the borrowers. The mortgage on future profits is satisfied, and the bank-made credit money ceases to exist. But other such fictitious deposits take the place of the liquidated ones in ever-increasing volume. It is the expectation of the capitalist class and its retainers, the university political economists of our time, that the borrowings of fictitious money, which we call bank-made credit money, will be redeemed forever by actual future profits in the form of profit-originated money of account, and they are under a vague impression that there is no natural limit of the figures which the latter may reach. This expectation is quite nebulous and far from assuming the definite terms in which we describe the process. They do not understand their own system, and they have an instinctive aversion to a scientific analysis of it. Philosophic economics is good enough for them.

Developing capitalism needs ever more money and cannot do without the bank-made kind. Billions of it have been created here lately on the basis of the influx of gold and the legal reduction of the reserve requirements. The European war has been financed mainly with just this fictitious money. The dangers lurking behind the money of account, especially and immediately of the bank-made kind, for the world's banks, therefore for the world's money which they represent, therefore for capitalism itself, are realized by the best experts in the service of the haute finance, although given cautious expression publicly, and by the big capitalists themselves, judging by their actions. Pay day must come, and with it the revelation of the social insolvency which will form the subject of my next chapter.

CHAPTER V.

The Social Insolvency.

LET us recall these salient facts: That mere titles to money have come to take the place of **actual** money among the capitalists; that the money left by the people at the disposal of the banks is now quite inconsiderable, compared with the volume of the titles; and that, nevertheless, the volume of the titles is growing (at least in the United States) twenty times as fast as the basic gold.

Where this absurdity must lead to can be no secret to the financial leaders. They admit that no financial legislation can make the system intrinsically sound. So they use their technical knowledge to devise contrivances calculated to keep the machine going for some years longer, hoping that, meantime, something may turn up to save the situation once more. That is all there is behind the federal reserve act and the amendments recently added to it. Previous to these enactments the safety of the banks had been sought in large reserves. Under the old law New York, Chicago and St. Louis national banks, for instance, had to carry 25 per cent cash against their demand deposits. The new reserve system makes it legally possible to reduce this reserve to less than three and a half per cent, as shown by Theo. H. Price in "Outlook," 1917, p. 477.

It should be understood that banks have no power to increase or decrease by a dollar the amount of money in their vaults. This power rests only with the depositors to whom the money belongs in reality, though not nominally. They can deposit or draw as much or as little as they please. All the banks can do is to limit the sum of their loans which, as we have seen, immediately become deposits, so as to accord with the cash in their possession.

The Federal Reserve legislation recognizes the fact that money of account cannot rely for safety on large reserves. New York banks have been forced to suspend in spite of their 25 per cent reserve. The hope for safety for a while longer lies rather in the localization of "runs" and the prevention of the spread of the alarm.

The financial leaders know that the whole financial mechanism rests on nothing but faith. They do not say: "Come, convince yourselves of the reasonableness of our system; use your intellect!" Instead, they merely say: "Have faith!" Other gentlemen before them have appealed to faith until the accumulation of evidence against it resulted in its sudden overthrow. Faith was dissolved into nothingness.

There never has been a solvent bank. It is the normal condition of banks to be insolvent.

The insolvency of the banks involves the social insolvency. The latter refers not merely to the public debts, now so great, nor even merely to the entire class of negotiable titles to revenue, such as bonds and stocks, nor even all money obligations—it includes the impossibility of paying for raw materials or wages. The gradual undermining and sudden collapse of the whole world's banks destroys the great bulk of the money so indispensable under capitalism. Only the bulk? Is it thinkable for a moment that when production is paralyzed, and before it can be resumed on a completely social basis—the only basis then possible—that the necessaries of life will be at the exclusive disposal of those who happen to be so fortunate as to have some pocket money? Of course not. Gold and tokens will be outlawed instantly. The hour of money has struck.

All this must be clear to anybody who gives the subject any serious attention. That any self-contradictory system must come to grief some time is obvious enough. But the great rabble among the capitalists think the game can go on "forever," so far as the present generation is concerned. All that is necessary is "confidence"—such a trifling and cheap thing. It is the task of Socialist economics (and since Marx that is strictly equivalent to scientific economics) to discover the processes which must bring the durability of the contradictory monetary mechanism within certain conceivable limits of time in spite of faith or "confidence." There must be processes which mechanically destroy this faith and vindicate the materialistic conception of history.

We know that the primary trouble

arises from the scarcity of gold, which has become insufficient in our time to perform its function of means of circulation and necessitated the use of imaginary money. Here we touch the original and mortal contradiction inherent in money, which has disclosed itself since Marx.

Suppose that some day a new source of supply of gold were discovered, making it possible to redeem all the world's tokens and bank deposits. This is by no means an impossible supposition, especially in view of the long lease of life vouchsafed to capitalism by the economics of half a century ago. Today the happening of such an event would be the death stroke of capitalism. Gold would then be capable of fulfilling its function of means of circulation, but unable to function as measure of value, which function abhors abundance. Such a flood of gold could only be the result of an enormously cheapened cost of production, and the effect of the low value of gold upon capitalism would be exactly the same as that brought about by the collapse of the banks. Money would be destroyed in either case.

But the present dilemma is not the overabundance, but the scarcity of gold and the necessity of making up the deficiency with symbols of and titles to gold.

These contrivances do not have the effect of lowering the value of gold, as its overabundance would. On the other hand, the substitutes for gold are subject to depreciation, as we have seen in a previous chapter. This refers directly only to paper money. But, inasmuch as deposits, which legally are debts like any others, may be paid with legal tender tokens, any depreciation of these affects the value of the deposits to exactly the same degree. Therefore, the depreciation of European currencies referred to previously includes at the same time a corresponding diminution of the value of the bank deposits.

The problem of the breakdown of money of account within a conceivable time thus reduces itself to a search for factors tending to bring about the progressive depreciation of paper money in the countries with a developed banking system. Meanwhile we leave the depositors in the undisturbed possession of their faith, although it would not be surprising if this were rudely shaken at any moment.

It is plain from the start that the principal cause which brought about the introduction of paper money, namely, the inadequacy of the gold supply for handling the increasing value of the stock of commodities, must also continue to bring about an evergrowing amount of that paper money, becoming ever more disproportionate to the slowly growing stock of gold.

Such, however, is only the general analogy of cause and effect between the early years of paper money and now. But one important difference has arisen. Formerly the paper money was simply an addition to the gold in circulation; but now money is needed, not only for circulation, but equally to repose in bank vaults as reserve against the new fangled money of account. It is true, of course, that on the other hand circulation is now helped out by checks. If these did not render aid, the amount of tokens would have to be that much larger. The latter would be exposed to the danger of depreciation in case of shrinkage of the value or price of the commodities to be circulated. In 1908, for instance, the money turnover in this country was 30 per cent less than in 1906.

It is a noteworthy fact that prior to the establishment of the federal reserve the American people left generally nearly half of their money in banks. For the latter that was equivalent to an accumulation of the daily cash deposits of 29 consecutive days without any withdrawals. In other words, the bank "reserves" could be considered formally as the initial cash receipts for 29 days, after which the daily receipts are balanced by the daily disbursements. The earlier depositors may be formally considered as beginning to draw as much cash as the later ones deposit. Of course, the money has to stay in the bank for some time, namely, the difference of time between the average "banking" of the wages of a theoretical common wage period and the withdrawing again of the money for another national payroll.

The common wage period is estimated by Irving Fisher, as quoted and accepted in a report of the Aldrich Monetary Commission, at 20 days. Therefore, the wages are spent and "banked" on an average in 10 days. That leaves 10 days for the money to stay in the banks before the next pay day comes around. But it is necessary to draw the money the day before pay day in order to prepare the payroll. Consequently, nine days is all the time that the money has to stay in the banks in the regular course of circulation, instead of 20 days. This shows that, so far as the active circulation is concerned, there was no technical necessity of there being then left in the custody of the banks more than $500,000,000 cash, instead of the $1,500,000,000 they had. Evidently there existed a billion more tokens than circulation needed. Against this excess we find an issue of notes of national banks, clearly made for no other purpose than to provide additional reserves against the growing deposits. For although, naturally, the banks cannot print notes, exchange them with each other and then claim that they have more money than before, singly or as a system, they can pass them off to the public, collecting and retaining instead the gold certificates (which are storage receipts for actual gold) and other legal tenders theretofore in general circulation.

Nevertheless, the time had not yet come for the token to depreciate, because there still was a preponderance of gold over tokens, and some gold had, therefore, to be in circulation all the time. That steadies the values of the tokens. But the tendency to their depreciation is irresistible. Production expands more or less steadily. Sometimes it is intensive; prices of commodities rise, as do those of land and securities. More currency is needed for wages and general spending. Depositors draw more from the banks. The so-called "reserves" shrink, which is only another way of saying that the depositors, instead of leaving their money in the banks 29 days, leave it only 28, 27, etc., days. In still another way this can be expressed as the increasing rapidity of the circulation of money until a point is reached when money is doing its maximum of work. Then the issue of more paper money becomes imperative.

The foregoing can be illustrated by

the relative increase from 1898 to 1914 of the money in active circulation (practically wages) and of the money in banks as reserves against deposits (which are in the long run all profit). The former was 54 per cent, the latter 137 per cent.

This would be all very fine for capitalism, if the thing did not run up against a stone wall beyond which it cannot go. The paper depreciates. It is in our time no longer issued by the governments of the leading capitalist countries, save under very exceptional circumstances, but by semi-governmental institutions, called national banks in Europe and the Federal Reserve Bank here. They are central banks for the individual banks whose reserves they hold. It is a unified system of banking for each country.

Can two banks print bank notes, each for a million, exchange them with each other, and then claim that they now have jointly two millions more money than before? Hardly; and no more can a whole national system perform a similar trick. What the banks can do is to pass their notes to depositors willing to take them and retain as money reserves all the gold coming their way. But in due time they strike a snag. When the channels of circulation are filled with notes to the entire exclusion of gold then, in the event of business depression or the necessity of gold shipments, depreciation knocks at the door, unless the banks give up gold and keep their notes, which latter, of course, cannot count as reserves at all. This alternative, either of opening the door to depreciation by clinging to the gold or of reducing their legal or voluntary reserves, will present itself to the banks again and again, and must end with the confessed insolvency of all the banks and the destruction of money.

To avoid the clearly dangerous augmentation of paper money, why could not capitalist society restrict the circulating medium so that each unit of gold, or its symbol, can buy a greater commodity value, thus counteracting the increase of the total value of the stock of commodities as expressed in gold, or preventing any continued tendency of prices to rise?

Such an idea implies the overvaluation of gold and would have to overcome the desperate resistance of the debtor class, less interested than the creditor class in the maintenance of capitalism. The idea, further, would have to be reconciled with the prospect of the concentration of an inordinate and constantly growing share of the world's wealth in the hands of the owners of gold mines. But far more important than these considerations is the fact that the circulation requirement, though it thus may be impeded, cannot be permanently confined. The restriction of the issue of paper money to a permanent proportion with the gold is incompatible with capitalism, whose expansion is irresistible as a result of competition. In time it would become impossible to circulate such commodities as are below a certain minimum of value. At the same time bank deposits would continue to grow from the inevitable profit accumulation. Instead of receiving additional cash for their reserves, the banks would see them practically exhausted. Reaching that point does not exhaust the demands for money by the depositors whose needs are imperative. Contraction is not workable for any length of time.

A longer lease of life for the things that are is promised by permitting inflation, as the need of it arises. Inflation, therefore, it shall be. However, a merely transitional form of society cannot be made permanent by following one policy any more than another. As all roads lead to Rome, inflation leads in the end to exactly the same point as contraction—to the social insolvency.

For a shrinkage in the value of paper money (and, therefore, of money of account) cannot be made good by printing more paper money. No matter how much is printed, the value of the sum of the tokens is not increased one iota, while the value of each unit is diminished. Overwhelming necessity has, nevertheless, compelled Europe since the war to have recourse to this ruinous proceeding on an immense scale, considering the shortness of the period. Yet the same thing was bound to happen, though, no doubt, more gradually, in the perfectly normal course of monetary development.

As the depreciation progresses the amount of the daily deposits of paper money increases. The passage of this money through the banks accelerates the growth of money of account. The swelling of the deposits calls for a relative increase of the reserves. But the additional reserves cannot come from the increased deposits of the depreciated money. Under the regime of gold, when this is the measure of value, the total price of the commodities in circulation calls only for a definite maximum of money. Any existing surplus of gold or symbols thereof find lodgment in bank vaults, and can stay there for an indefinite time.

But it is otherwise under the regime of depreciated paper. The issue of tokens has been called forth by the needs of circulation, but once they are issued in excess of the economic law, they will not retire to bank vaults longer than technically necessary. Their aggregate value is determined by the aggregate value of the commodities in circulation; therefore, all the units of the token issue are at all times needed in circulation. Granting that the gold basis has been frankly abandoned, and that the banks consider their own notes, or promises to pay (but pay with what?) as money, it is, nevertheless, plain that the gain of reserves by the banks must be small relatively to the growth of deposits.

On the other hand, the strain on the banks becomes more severe constantly. While the reserves grow little, the deposits grow much, and, naturally, cause a growing demand on the banks for cash. How are these to meet the situation? There are two ways.

One is to pass new paper money out of the paying teller's window. This increases prices, which necessitates the issue of still more paper. It is now the method adopted by Europe in grandiose style since the war. But it is a vicious circle, from which there is no escape until the value of money is destroyed in due course of the process, or this process is ended deliberately by the dethronement of money and the establishment of complete Socialism.

The other way is for the banks to reduce their loans and thereby their "deposits." This is, likewise, a road of thorns. It is clear that if tokens have depreciated, say 50 per cent, the borrowing world needs to double its borrowings to continue the industries on the established scale. On the contrary, it now has to face the withdrawal of the loans. To the extent that productive and mercantile capitalists can manage to pay off their bank debts they must reduce their operations. By this reduction of money capital alone, aside from other difficulties, great numbers of workers are forced into idleness.

But many other industrial capitalists are too involved to pay up. Their entire business is founded on the expectation of material support by bank loans. Already the rising prices strain their capital. Many failures of industrial capitalists of this caliber would add greatly to the already existing unemployment. But, what is much more important in economics, these failures would go close to the heart of many banks, perhaps of all. Many banks have outstanding loans to the tune of 10 or more times their capital and surplus (one very large bank in England even 20 times), so that the loss of 10 per cent and even less of their outstandings loans would wipe out both their capital and surplus and destroy the "solvency" of such banks. A loss of 25 per cent would strike fatally all banks. In stating these percentages I leave out of consideration that banks are heavy creditors of each other, and as such creditors may be involved also in losses through the failure of other banks.

This book does not concern itself with states of mind which may be produced by changing conditions. I am well aware of the possibility that loss of faith in the social solvency may become epidemic and result in an universal assault on the banks, or that the workers may be fired to revolutionary action through their sufferings. My object, however, has been to show the trend of recent economic development, of which social bankruptcy, followed by complete Socialism, is the inevitable outcome, regardless of states of mind. In our discussions we have come across several phenomena which show that the process is well under way. How near we may be to the catastrophe will be the subject of the next chapter.

CHAPTER VI.

The Money Source for the War Loans.

THE New York Times of August 3, 1917, contained the following special cable from London:

> New Europe, a weekly publication possessing special sources of continental information . . . says: "We learn from an unimpeachable source that a secret conference of international financiers, which recently took place in Switzerland, was inspired by somewhat different motives from those which were ascribed to it at the time. Acting purely in the interests of the great capitalists of all countries, it aimed, above all, at an immediate peace, such as would arrest the growth of international Socialism and the rising tide of revolution throughout Europe. The gathering sought to forestall the holding of the Stockholm conference by a direct arrangement between the belligerents in which national claims would be entirely subordinated to consideration of world-wide finance."

And so it is the international financiers who, of all capitalistic elements, are the first to perceive the necessity of attempting to call off the dogs of war. Since when have these gentry become distinguished as having the clearest vision of the menace of international Socialism?

Before the war there was no set of men more incapable of comprehending the economic trend, except, perhaps, the professors of political economy. Socialism was beneath their notice—too absurd to give a minute of their time to. And now, instead of delegating their trained politicians or other retainers, they must meet personally for consultation, lest in fighting for "national claims" all of "world-wide finance" become engulfed in one whirlpool.

Now, why have the international financiers become afraid of the approach of international Socialism? What do they see?

Immediately there comes to the mind of most people the immensity of the war debts and the oft expressed, though unproved, idea that the interest cannot be paid; wherefore the conclusion is near at hand that what the financiers dread is repudiation. Now, repudiation may be partial or complete. The rate of interest might possibly be reduced from 5 to 4 per cent or be cut in half, reducing the selling value of the bonds proportionately. But that complete repudiation should be necessary is fanciful, to say the least. Even if repudiation became necessary, but involved nothing more than depriving private bondholders of part, or even the whole, of the revenue which they had purchased, it would be hard to explain why this must necessarily result in international Socialism. In fact, as the case stands today, there is no reason why the interest cannot be paid in full, as agreed. It is as easy to pay five billions annually with money depreciated 50 per cent as it would have been to pay half that sum with the money of full value of pre-war time. Looking at the matter in this light, it still remains true that the former load of interest of one billion dollars has been increased by an additional two and a half billions. But this addition might be made good, in the main, by reducing the military budgets currently reported to have stood at two billions before the war. That this might be done is a reasonable supposition, as the countries of Europe will be too exhausted for many years to contemplate and prepare for another physical trial of conclusions. Also, higher taxation than before the war might be resorted to. Although the capitalists grumbled much then, as a matter of course, their eyes have since been opened wide as to what taxation might really mean. Great Britain, alone, during the fiscal year ended March 31, 1917, raised by taxation two and a half billion dollars, figuring the British pound as being worth about par, which, however, is undoubtedly far from being the fact, in spite of the artificial rate of exchange.

If the international financiers perceive danger to the existing form of society from continued war borrowings, why do they not pass the word along quietly to the ordinary banks that repudiation must come, and that it were better to strike against further loans? Is it only because these gentlemen know that the banks are between the devil of coercion above and the deep sea of bankruptcy below, so that nothing can save the whole of finance and capitalist society except the immediate cessation of the war? To bring the latter about is the aim of the international financiers, strangely coinciding with the purpose of the Stockholm conference of international Socialists, their enemies. But this tremendous and sacrificial world war will not pass into history as having been in vain. It is to be recorded as the deliverer of Socialism out of the womb of the old society, and will not stop its work until its purpose is fulfilled. Capitalism had reached the stage in its development where it needed this war, and by this war it shall die.

In truth, the war, and the war loans on which it feeds, may go on for some time yet, so far as the final necessity of the mere repudiation of the debts is concerned, provided the depreciation of the currencies continues in proportion to the increase of the debts. The interest always will be payable in money of lesser value than that with which the loan was paid. It is not the loans in themselves which constitute the danger of capitalism, but the abnormal impetus which they give to the otherwise perfectly normal economic process that results in the destruction of money. That is what the international financiers are scenting.

Let us now proceed to take a close view of the destructive process as it is being furthered by the war.

The first question is: Where did the $90,000,000,000 which ostensibly could be spared for investment in war bonds come from? The sum taxes our power of conception.

At the beginning of the war the opinion was widely expressed by financiers and their clerks, the political economists, that it hardly could last as long as six months, owing to the probable immense cost, which would exceed the availabe resources in money. As long ago as June, 1915, the National City Bank's circular, estimating that a year of war would require the raising of $15,000,000,000, stated that that could only be done by "pyramiding credit," that is, by piling credits on substrata of other credits. Now the war has gone on three times as long as that contemplated by the bank, and the loans are even six times as large as that estimate.

Such financing was entirely beyond the conception of the experts. They were thinking within the traditional rules of fairly conservative banking, and they believed that, when the ordinary financial limits were reached, the war would have to stop. Little did they dream that the financiers and the whole ruling class would lose control of the war and be controlled by it; that the patriotic beast, once unleashed, could not in its fury be kept within desired bounds; that it would drag their society, as the devil does the poor soul, into perdition. They meant to give the devil a finger, but he irresistibly extended his clutch over the whole hand.

When we come to answer this question of the loan funds, let us first dispose of the supposition that it may have been to a considerable extent current money, the identical pieces of coin or paper having been used over and over. Inasmuch as the loans were payable in installments, it might be imagined that the money paid to the governments on one installment would return into circulation as wages, etc., and become available for the next installment. However, we glean from figures published by the German government, the only one which has done so, that 1,794,084 subscribers took 154,000,000 of marks, while 725 subscribers took 2,448,000,000 millions of the fifth loan. In England, where the per capita circulation is much smaller than in Germany, and the middle class nonexistent, the small payments with actual currency must have been almost a nullity. In short, the loans were not paid in current money, and the participation in them by the workers and middle class (mostly peasants) is negligible, so far as amount is concerned.

We may, therefore, now proceed to inquire whether the loans were paid out of the profit-originated money of account.

For several years up to the war the annual capitalization in London, Paris and Berlin was about three billion dollars. That is to say, that, after part of the annual profit above living expenses of the capitalists and their retainers—soldiers, lawyers, professors, etc.—had been used to extend their businesses, the aforementioned sum remained as a balance in money form available for temporary investment in new issues of securities. Upon the outbreak of the war private issues were prohibited in order to monopolize the money markets for government issues. Thus there became available for the latter during the three years of war nine billion dollars. To this may be added two billions of merchants' capital laid idle in domestic and foreign commerce, owing to the direct control by the governments of more than half of the industrial production and to the blockade of Germany, but offset to quite an extent by the additional capital called for by the advance of as much as 1,000 per cent in the cost of ships, etc.

Thus we find eleven billion dollars to be all the visible money available for war loans. It was probably on some such calculation that financial authorities based their prediction already referred to that the war could scarcely last six months. Yet loans of eight times as much have been paid, and we are consequently not much nearer an answer to our question: Where did the money come from?

"But wait!" I hear some Socialist glibly interject, "you forget the outrageous war profits."

What has attracted our Comrade's attention and confused him is the profit of our American capitalists, who really have something tangible to show—billions in gold and American securities formerly owned in Europe and now transferred to them. The American capitalists grew richer, but the European poorer to the extent that their own governments' obligations were worth less than gold or American securities. Besides the latter had been a source of unadulterated revenue, whereas the money for the payment of interest and the redemption of the principal of the war bonds which the European capitalists got in exchange has to come out of their own profits in the shape of taxes.

The vaunted "war profits" of the European capitalists cannot have added materially to the amount of money available for the war loans placed by the belligerent governments in their respective countries. Let us take a look at these so-called war profits.

When a productive capitalist turns out a quantity of a divisible product, one part of this may be considered to represent the value of the material consumed, and another part the new value added by labor. This new value is divided between those who produced it and the capitalists. The latter's share is called surplus value or profit, according to certain relations. The worker receives his share in the shape of a quantity of products necessary to keep him going, or rather of the money to buy them himself.

What matters to the capitalist class is the quantity (or rather, value) of the products which it can appropriate to itself. The more active the process of production is, the more the workers can be made to work, the greater the value of the products going to the capitalists, both absolutely and relatively, the latter owing to the comparatively lesser increase of general expenses. The money derived from such real profits is a source for war loans.

In ordinary times goods are universally exchanged with each other on the basis of their comparative values, as measured by the cost of producing gold. But now there is abroad a spendthrift buyer, paying, not with money, but by running into debt, having no commodities to sell. He cares not about price, and what he buys he destroys promptly.

When demand is thus active, outrunning production, prices advance, and the more so, if production centers mainly on useless things, such as cannons. The progressive rise of prices enables the productive capitalists to make an additional gain. But this gain is illusory for the capitalist class considered as a whole and therefore not available for war loans.

Price fluctuations are the ever renewed capitalistic attempt to adjust the division of the product between the owners of money and the owners of commodities, incidentally regulating wages. These fluctuations do not affect the mass (or rather, value) of the product which goes to the capitalists. To express its total in ever so high a price, does not make it more. Every money unit of profit can only buy so much less. Among the individual capitalists the gain of one, procured by rising prices, must be the loss of another, not necessarily at the same time, as in the case of the money capitalist receiving a fixed rate of interest, but at a later time, when the market moves downward. The gains and losses, not being profit, or the result of labor performed, must offset each other.

If the illusory gains (they are so largely also for other reasons to be mentioned presently) are nevertheless invested by some capitalists in war loans, they deprive the capitalist class as a whole of the means of meeting the losses when they come. The severity of the resultant crisis is the measure of retribution which an anarchic form of society must suffer for its imperfection.

But suppose that for the first time in economic history there comes no falling market after the war. Then there are only two possibilities which could explain such a phenomenon. Either gold has undergone a sudden and permanent decline of value, or price is expressed by depreciated paper money. The first mentioned explanation is quite gratuitous, as the cost of producing gold has actually risen since the war. What depreciation means to our present social order we need not repeat here.

American capitalists may gain billions by price advances, but foreign capitalists must lose correspondingly, either at once or later. The capitalist class as a whole cannot gain by price advances. If the European capitalists have, as many think, been able to gouge their governments, the latter must exact the return in due time of every penny by the taxes necessary to pay off their debts and the interest thereon. The capitalist class cannot add to its profit by gouging. It cannot exact anything from society but the regular surplus product.

Supposing the productive capitalists to have been able, after the outbreak of the war, to take advantage of the other elements of society, would not the latter have so much less money to invest in war loans, as the former had more?

Before the governments had been able to replace capitalist anarchy by their centralized control of the industries, the productive capitalists exacted exorbitant prices from the reckless, debt-making governments. But these extra gains, which would have become illusory, anyhow, in the course of time, as above explained, were promptly reclaimed by the governments in the shape of war taxes. The British government has raised the taxation from 815 million dollars in the last year of peace to 2,570 million dollars for the fiscal year ending March 31,

1917. The German industrial organization permitted of speedy regulation of war production and prices.

There was another source of vaunted "war profits" which, however, in reality is only a delusion. Concerns showed unprecedented increases of surplus on their balance sheets, but these extraordinary profits reflected depreciated money. This depreciation was the inevitable result of the inevitable inflation of the paper money circulation in every warring country. The issues in the course of the war have been increased six to twelve fold in different countries. The reader knows from the theory of tokens of money presented in a previous article that such inflation results in higher prices. After having sold at the advancing prices, the capitalist is obliged to enter the market again as a buyer, and in his turn pay the highest price. He finds that his swollen purse can buy no more than his former more modest one. If he has indulged himself personally with the increase of his cash, or if he has invested it in war loans, he will find that he cannot continue production on the former scale. But, no matter what the individual capitalist might do, the finale would be the same. Money has depreciated 50 per cent, and unprecedented increases of surplus appear on the books of accounts—great war prosperity! Money further depreciates 95 per cent, and every little capitalist has become a millionaire. The depreciation reaches 99 per cent, and—a yawning abyss opens before the eye. The illusion that there can be prosperity as the result of a wanton destruction of the fruit of labor has vanished.

The only conclusion, therefore, is that, while a certain amount of additional profits from intensive production during the war, minus the increase in taxation, may have been a contributory source of money supply for the war loans, the legitimate profit-originated money of account cannot have furnished the wherewithal to a large extent.

We have now completed our investigation with the result that bank-made credit money stands revealed as the main financier of the war together with the equally fictitious accretion to the profit-originated money of account due to rising prices.

How this financing was accomplished will be told in the next chapter, in which will also be considered the final effects of this financing on the condition of the banks and of capitalist society.

CHAPTER VII.

The War, Birth Deliverer of Socialism.

THERE are two ways which the banks may consider for financing war by means of bank-made credit money.

One is by direct subscription to the war loans for their own account; the other is by making the necessary loans to depositors willing to subscribe.

The former was adopted by the banks at the beginning of the war, when the general opinion among bankers was that the war would necessarily be short owing to exhaustion of the money supply. The latter way was the one followed later to procure the great bulk of the borrowings of the governments, when the disillusionment regarding the possible duration of the war began to spread.

What is the difference between the two methods in their effects on the situation of the banks?

In lending to the government, the bank accepts a long term obligation. The return of the principal cannot be had except by sale of the bonds at whatever may be the stock exchange quotation at the time the bank wants to sell. The banks cannot go very far in long time investments, remembering well that in panics, just the time when money is wanted, it had become impossible to sell at almost any price.

In lending to depositors the bank gets their reasonably short obligations, usually divided into what appear as manageable instalments. The bank, furthermore, promises renewals in case of necessity, although such promises are made in a form not legally binding on the bank. In this way the bank counts on a fairly regular inflow of money, instead of being tied up with long term investments. In the latter condition, banks are apt to be heavily drawn on, with but little coming in, and the balance must be made good at the clearing house with actual cash or at the central bank with whatever may be satisfactory to it. The war bonds themselves are taken by the banks as collateral security.

But there is another difference normally, even more important.

The borrowed money is disbursed by the government principally by issuing checks to the productive capitalists who deposit them in their banks. The bank deposits, or the banks' liabilities payable on demand, are thus swelled. This is, of course, true in either case, whether the government funds are obtained direct from the bank or from private investors. But for the banks, there is this all-important difference that, if they have advanced the money direct, the deposits will stay swelled, with all the attendant dangers of increasing and perhaps sudden demands by the depositors for cash; whereas, if the banks advanced the money to subscribers, the swelling of the deposit accounts of the industrial capitalists is accompanied by the reduction of the deposit accounts of the holders of bonds, as the money borrowed by them is being paid off.

How the banks could advance the fabulous sums for the war is no longer a mystery to the attentive reader of the analysis of bank-made credit money in a previous article. If the banks had turned over their cash to the government, there would at no moment have been any increase whatever of the money of account; or, if the banks had discounted commercial paper at the central banks for the purpose, the increase would only have been quite temporary. Also with such simple methods the banks' financing of the war would soon have reached its end. The trick is how to pay unlimited amounts without paying a penny. Bank-made credit money had long solved this problem. The private subscriptions were collected by the banks which transmitted them to the government with authorization to issue demand drafts on them for the aggregate. These drafts, in due course, were deposited by the productive capitalists and cleared against each other in the approved system of money of account.

Can billions upon billions of dollars' worth of labor products be taken out into the open and blown up, without costing anybody anything, owing to an ingenious financial system? Is there no day of reckoning coming? It seems hardly necessary to pause here and consider.

That much was clear to the governments and the leading banks that it was of the utmost importance to induce the general investors to subscribe. To raise the "Victory Loan" in England last spring a campaign was set on foot such as had never been seen in that country for any purpose. In due time the world was informed that the "Victory Loan" had been a great victory. However, it will be instructive to take a little closer look at it.

This 5 per cent loan was issued at 95; that is, the government gave its obligation for £100 on payment of only £95. The banks mutually agreed to lend the depositors £90. All the subscribed had to put up was £5. Accordingly, he collects from the government interest on the obligation of £100, or £5, and he pays to the bank 5 per cent on £90, or £4½. His own contribution of £5 yields him the difference between the £5 he receives and the 4½ he has to pay, or £½, which is 10 per cent. The banks allow this advantage to the investors with an eye to the pressure which they may exert hereafter on their debtors so that these may reduce their deposits by paying up their matured instalments.

Here, then, is a loan in which the banks have not directly invested at all, but which was paid, all but 5 per cent, with bank-made credit money.

The savings banks of Germany have subscribed to war loans in excess of the amount of their deposits, although these were already supposed to be invested. The reader may well be pardoned if he considers this statement as absurd. Still, the fact is that the savings banks pledged their investments to the War Loan Banks, receiving 75 per cent in cash for investment in the impending loan. When the next loan came around they similarly pledged their 75 marks in war bonds for another loan of 75 per cent of the value of these; that is, 56¼ marks, etc. The war loan banks, which are in reality nothing but unofficial appendages of the Imperial Bank, do not admit having had outstanding at any time more than 4,000 million marks in notes. These banks, as well as any other banks in Germany and in the other belligerent countries, may prevaricate, dress their windows for special dates, or suspend publication of reports, but they cannot conceal the general facts as to the condition they are in as a whole.

The expansion of deposits precedes and calls forth the inflation of the token currency. This is doomed to depreciation. Only England (and to a lesser degree her protegé, France) has only indirectly (through depreciation of the dollar in neutral countries) to acknowledge such depreciation as a consequence of the war. This is due to England's shipments of gold to the United States, to the inhibition of such shipments to other countries, the reduction of her gold reserve to a minimum, the sacrifice of her best securities, the assistance of the United States first by loans against security, and now by shipments of goods without payment and the purchase of neutral Sterling drafts at the gold value. As a consequence of the last mentioned assistance the dollar is now depreciating in the neutral countries, gold shipments to them being under embargo. Nevertheless, what America is doing to sustain the pound (and, secondarily, the franc) does not appear sufficient to the Journal des Débats, the distinguished French capitalist mouthpiece, which, according to a cablegram in the New York Times of August 7, 1917, says that "America must open credits to the allies as large as may be needed," "for to refuse them would make a continuation of the war impossible."

I do not pretend to have any idea how much strength the dollar can contribute to sustain the financial structure of England and of the world, or how soon we may succeed in ending the war by throwing our military power into the scale. Should the war last another year, the demand debts of the European banks will have increased by another 50,000 million dollars, the value of money will be further reduced, and perhaps near the vanishing point, aside from spending the strength of the dollar in which borrowings of 18,000 million dollars are now contemplated for the year. A sudden debacle need surprise nobody; least of all could it surprise the international financiers and the bankers. They have been drifting along, feeling themselves powerless in the hand of fate. Ere long the banks, and with them the great mass of the industrial capitalists, might reach that frame of mind in which continued struggle against Socialism, for the sake of the little that may be saved, may not seem worth the anxiety, and conclude that they may as well surrender sooner as later.

In the meantime the governments are making supreme, though unconscious, efforts to prepare the world, through social regulation of production and consumption, for the impending transformation of the political form of social organization into the industrial form. The political form has been adequate for individualistic production, even when, with the development of capitalism, production took on an entirely social aspect. Money was the indispensable tool to make this evolution possible in a fundamentally individualistic society. When society becomes an organism, conscious of being such, the necessity of money disappears at once. Or to reverse the statement, when the category of money is destroyed through the operation of some economic law, the commodity-producing society and its organic form, the political state, disappear at once, and Socialism, organized industrially, arises spontaneously.

Such appears to be the inevitable immediate outcome of a continuation of the war for the comparatively short time necessary, at the present and steadily growing cost, to insure the mechanical collapse of capitalism. There remains for us now only to take a prospective of the condition in which capital, the controlling element of society, would find itself, should the Socialists or financiers, or any other group, succeed in bringing about immediate peace.

In spite of deterioration of the machinery of production and transportation during the war; in spite often of scarcity of raw and accessory materials, and the withdrawal of the most efficient mental and manual workers from industry, the general productive efficiency has been materially heightened by centralization and co-ordination of effort through government control. It was possible to reach and maintain the maximum of production attainable under existing technical conditions, because production was carried on for the direct purpose of consumption by an insatiable and spendthrift customer. This maximum is not likely to be exceeded, or even equalled, when profit becomes the object of the buyer of the goods, when this profit must be paid out of current income, instead of by I. O. U.'s on the future. More likely will production decrease.

Then will the smaller mass of commodities still be confronted, and their price be expressed, by the existing and undiminished mass of tokens. Depreciation makes another step forward, prices rise further. Usually the rising tendency of prices has induced contracts for future delivery of goods, and thus has inaugurated an industrial boom. But this time speculation is nipped in the bud by the extreme scarcity of loanable capital. Therefore, the sum of tokens now will suffice for peace time circulation, and the war time pressure on the banks, when the growing circulation requirement necessitated their constant issue of new notes, relaxes.

But the pressure does not cease altogether. Whatever the sum of depreciated tokens, it always will be required for the circulation, allowing merely for a portion to remain in banks during a technically necessary time. The percentage of reserves against the huge deposits must, therefore, remain perilously small, unless the banks are able to reduce the deposits materially. Now, we know that it is only the bank-made credit money which is subject to being reduced. Its cancellation can be effected only by means of profit-originated money of account. In other words, **it takes new profit accumulation in money form to pay off the bank loans.** The wastage of war cannot be made to count for nothing through mere financial hocus-pocus; the wastage must be replaced by productive labor, namely, that part of the latter which is appropriated by the capitalists.

In the three years of war bank-made credit money and fictitious profit-originated money has been issued at the rate of nine times the ante bellum profit accumulation in money form. That means that nine times three years, or 27 years, are necessary to pay off the debts of the bondholders to the banks, and to cancel the fictitious profits (really only gains) by the necessary losses. This period might be shortened in individual cases by extra profits, the conversion of merchandise stocks into money and the sale of the securities. But none of these things is possible on an extensive scale, and nothing can shorten the average time.

For, since the deposits can be diminished only very gradually, relief to the banks from this direction (prompt relief from diminished circulation requirement was mentioned above) must be equally slow. Therefore, the banks will continue to remain in a precarious condition. They may be able to drag along for a number of years by resuming the issue of additional paper money, whenever their funds give out, in spite of the reduced mass of commodities. Thus they once more enter the vicious circle, with little hope of ever escaping from it. The only possibility of rising out of the death swamp of depreciation lies in a rapid increase in the mass of commodities by a demand for them.

For this, however, there exists little chance for many years to come for the following reasons:

First—The banks cannot entertain any thought of adding to their outstanding credit money. This circumstance alone prevents an industrial revival. But the whole truth is, that there will exist practically no loan capital of any kind. Dismissing all idea of continuing the accustomed and, according to Marxian economics, necessary industrial expansion, the industrial capitalists will have enough trouble merely to make both ends meet. Their profit accumulation in money form, on the pre-war scale, already is pledged for many years for the redemption of their bank loans. None of it can serve as loan capital. The merchants, whose capital normally relieves the productive capital, expect to realize on their investments in order to put back the money in its former channel. But where is this money to come from?

Next, it might be suggested that more profit would be accumulated in money form by accumulating less in means of production. Supposing that the aggregate profit equals ante bellum years, then this is precisely what must be done—not to lend wings to capitalism, but to allow it to walk on crutches. For out of the additional funds so gained, at the expense of industrial advancement, must be paid the merchants' capital, supposed to have been only temporarily invested, and now needed; the renovation of plant, the worse for wear and partly obsolete through new discoveries; and taxes, greatly increased compared to former times.

As stated, all this is predicted on the former scale of profits. The prospect of its materialization is not, however, very flattering with the industrial capitalists expected to operate without borrowed money, and with 30,000,000 men back from the war with impaired productive capacity, but accustomed to liberal consumption.

The competitive struggle will be sharpened. Some industrial capitalists are bound to progress, but more of them than ever before will fall by the wayside. The sale of the government bonds among their assets, together with the sale of merchants' bonds, the very high rate of interest which any loanable money commands—all depress the stock exchanges. The securities in which the banks have invested their own capital, shrink in value. Even in the spring of 1917 the loss of value of the securities dealt in on the London Stock Exchange was estimated at $3,500,000,000 since the beginning of the war. The solvency of the banks, nominal as we know it always to have been, may become a question in the minds of a considerable number of depositors, and finally bring about the universal "run." Instead of the long-drawn out agony we then would have the sudden collapse.

But we seem to forget all about those little piles of gold which each central bank is guarding so jealousy. The present intention of the Germans, always in the vanguard of economic organization, is to hold its gold for international trade conducted by their government as the sole buying and selling agent of the productive capitalists. There would be, for instance, one selling agent in the United States for German chemicals, who would be at the same time the buying agent of cotton. The transactions in chemicals and cotton would be made dependent on each other. This would compel the American government to act likewise as sole buyer and seller. Thus another great step forward will be made not only toward national but toward international control of industries. The gold is to be used in cases where barter is impossible. Otherwise it has lost its significance.

Many great capitalists, as well as the rank and file of their class, even now live in the illusion that nothing but the political class state and the ancient system of exploitation are thinkable. Those of one country believe they can be benefitted by victory over those of another country. They dream even now of empire in China, Africa, or wherever subjugation is possible.

But in reality the long vista of capitalism has vanished. The moment was approaching when, even in the normal course of its development, it was to be wrecked by its fundamental flaw, the necessity of commodity money. When this became insufficient the game was played with paper. This represented titles to the money commodity and passed from one to the other as being as good as the real thing. If the game can be said to rest on any theory, it is that these titles are not meant to be ever made good; that they must remain unredeemed in all eternity, and that they may reach the colossal figures of astronomy. For, were they ever redeemed, whether in gold or in another kind of paper, the payment would be worth nothing. Faith excludes the thought of redemption. It is for science to discover the forces that will, by compelling redemption, end the absurdity.

Early peace offers the prospect of the lingering death struggle of capitalism, its last years attended by widespread suffering and probably intense economic and political perturbation.

Continuance of the war assures the early and sudden downfall of capitalism in consequence of the worldwide failure of the financial mechanism.

But, whether it be peace or more war, the days of the rule of gold are numbered. History never can overestimate the importance of the part played in human progress by the yellow metal. It was the tool placed by nature into the hands of man for the erection of an edifice in which was to dwell a race emancipated from physical care and free to devote its mental gifts to the highest aims. But in all animate nature the evolution of lower to higher forms is replete with the tragedies of the struggle for exitence. The golden tool became the master of the workman, setting the pace for him and driving him pitilessly and relentlessly toward the completion of a task he understood not. Now the tool fails for further service. It is breaking in man's hand. But, behold! Completed is the dwelling in which the struggle between man and man shall be unknown, and in which the fateful gold, stripped of power, cleansed of blood, will be restored to its natural character—that of being a mere thing of beauty and innocent joy.